

Appendix F

Types of Audits

This information is designed to give brief descriptions of various audit types state agency staff may deal with in the contracting process.

Financial Audits

Non-Governmental Entities

Financial audits of non-governmental entities are performed under Generally Accepted Audit Standards (GAAS), published by the American Institute of Certified Public Accountants (AICPA). The auditor gains an understanding of internal controls affecting the fair presentation of the financial statements and performs tests to verify amounts presented which could affect decisions made by financial statement users. The audit results in an opinion on the fair presentation of the financial statements.

Governmental Entities

Financial audits of governmental entities are performed under Generally Accepted Government Auditing Standards (GAGAS), published by the Comptroller General of the United States. In addition to the procedures performed under a GAAS audit, the auditor gains an understanding of internal controls affecting compliance with laws and regulations and performs tests to determine the entity's compliance with the applicable laws and regulations. The audit results in an opinion on the fair presentation of the financial statements, an opinion on the entity's internal controls over the financial statements, and a report on its compliance with laws and regulations that are material to the financial statements.

Service Organization Internal Control Audits

Service organization internal control audit means an audit of an organization that provides services to an entity, when such services affect how the entity's transactions are initiated, recorded, processed, or reported. An example is an electronic data processing center that processes transactions and related data for other businesses. When a contractor has these services provided by another organization, the state agency may consider obtaining an audit of the other organization. The AICPA requires these audits when the transactions are material to the financial statements.

When services that affect how the agency's transactions are initiated, recorded, processed, or reported are obtained from another organization, state agencies may hire an independent auditor to review the other organization's internal controls.

Compliance Audits

Single Audits of Governmental and Non-Governmental Entities

Single Audits are performed under Circular A-133, published by the U.S. Office of Management and Budget. A Single Audit is an audit of both the entity's financial statements and the federal awards to the entity. A single audit determines whether the entity is in compliance with the laws and regulations of the federal awards to the entity, as well as with the provisions of the federal award contracts or grant agreements that could affect the financial statements. The audit results in an opinion on the fair presentation of the financial statements, an opinion on the fair presentation of the schedule of expenditures of Federal awards in relation to the financial statements taken as a whole, a report on internal control related to the financial statements and major

programs, and a report on compliance with laws, regulations, and the provisions of contracts or grant agreements where noncompliance with such laws, regulations, or contract or grant agreement provisions could have a material effect on the financial statements.

Program Specific Audits

Under OMB Circular A-133, a program specific audit means an audit of one Federal program. When a contractor is subject to a Single Audit but expends Federal awards under only one Federal program, and the Federal program's laws, regulations, or grant agreements do not require a financial statement audit of the contractor, then the contractor may elect to have a program-specific audit. In this case, the audit would be done of only the financial statements related to the specific program and the contractor's compliance with the programs laws and regulations.

Federal Program Audits and Federal Monitoring Reviews

Under OMB Circular A-133, federal agencies retain the right to conduct or arrange for additional audits. These audits generally focus on how well the contractor achieves program objectives and complies with requirements specific to the program. These audits may or may not include a review of the fiscal aspects of the program and administrative capability of the entity.

Regulatory Audits

A regulatory audit means an audit done for the purpose of determining a contractor's compliance with specific regulations, statutes, or reporting requirements. Regulatory audits may be required by either the Federal government or by State statute.

Special Purpose Audits

Program or Performance Audits

Performance audits are generally done as either economy and efficiency audits or program audits. Economy and efficiency audits include determining whether the entity is acquiring, protecting, and using its resources economically and efficiently, what the causes are of inefficiencies or uneconomical practices, and whether the entity has complied with laws and regulations concerning matters of economy and efficiency. Program audits include determining the extent to which the desired results or benefits established by the legislature or other authorizing body is being achieved, the effectiveness of organizations, programs, activities, or functions, and whether the entity is complying with requirements of laws and regulations applicable to the program.

Where these audits are done of state agencies, they are generally specified in legislation or budget provisos. Performance audits of state agencies are usually done by the Joint Legislative Audit and Review Committee (JLARC). In addition to performance or program audits, JLARC may perform sunset reviews of legislation. If a state agency wants to obtain a performance audit of a client service contractor, this should be specified in the client service contract.

Limited Scope and Agreed-Upon Procedures Audits

A limited scope audit is one in which the scope of the audit is limited, either by agreement of the state agency and the contractor, or by the contractor limiting the auditor's access to records or not having sufficient records to audit, or by lack of independence of the auditor. An agreed-upon procedures audit is a limited scope audit where the specific audit procedures for the audit of the contractor are agreed to by the state agency and the contractor, and are defined in the contract with the auditor.